

Summit County Prosecutor's Office
Segregated Accounts
Performance Audit General Report

Prepared for:

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Audit Committee**

**Approved by Audit Committee
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EXECUTIVE SUMMARY

Total Number of Issues – 4

Internal Controls

Strong Internal Controls:

Account/Section	# Issues	Issue Description	Page Ref.
Furtherance of Justice Account	0	N/A	6
Federal Law Enforcement Trust Fund			

Weaknesses in Internal Controls:

Account	# Issues	Issue Description	Page Ref.
Law Enforcement Trust Fund	2	<ul style="list-style-type: none"> • Supervisory review not obtained/documentated on the bank reconciliation (CSEA Deposits) • Untimely deposit (Law Enforcement Trust Fund, Education Account) 	6
Education Account			
CSEA Deposits Held and Due to Others			
1099 Process	1	<ul style="list-style-type: none"> • Inadequate Form 1099 Process 	7
Vendor PEDACKN Forms	1	<ul style="list-style-type: none"> • Insufficient policies and procedures/completion of forms 	8

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GENERAL BACKGROUND

The Summit County Prosecutor's Office (Prosecutor's Office) administers five (5) segregated bank accounts. The Prosecutor's Office participates in Federal and State Law Enforcement Fund programs which disburse funds generated from seized and forfeited assets.

A description of the segregated accounts deposits and expenditures are represented in the table below:

Account Name (Account Number)	Regulating Authority	Deposits	Expenditures
Law Enforcement Trust Fund (...8595)	State of Ohio	Share of state and local seized assets	Education account, training, Prosecutor's education credits, etc.
Education Account (...8587)	State of Ohio	10% transfer of LETF funds on first \$100,000 received; 20% transfer on funds over \$100,000	Public education purposes (e.g., safety calendars, public awareness events, etc.)
Federal Law Enforcement Trust Fund (...1215)	Federal	Share of federal seized and forfeited assets	Training, Prosecutor's education credits, etc.
Furtherance of Justice (...3721)	State of Ohio	General fund (based on the Prosecutor's salary)	General purchases (e.g., attorney dues, law handbooks, etc.)
CSEA Deposits Held & Due to Others (...3455)	State of Ohio	Child support payments	Daily state Child Support Payment Central (CSPC) disbursements

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AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The primary focus of this review was to provide the Prosecutor's Office with reasonable assurance, based on the testing performed, on the adequacy of the system of management control currently in effect for the audit areas.

Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, as well as methods and procedures to ensure that goals are met. Specific audit objectives include evaluating the policies, procedures, and internal controls related to the Prosecutor's Office.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's unaltered written response, can be found in the following sections of this report.

Objectives:

- To review the segregated account internal control structure through employee interviews and observations.
- To ensure IRS Form 1099s are processed according to IRS regulations.
- To ensure vendors that are independent contractors are processed in accordance with OPERS guidelines and ORC §145.38 (B) (6).

Scope:

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the Prosecutor's Office from January 1, 2016 through December 31, 2016.

The following were the major audit steps performed:

OBJECTIVE 1 – REVIEW OF SEGREGATED ACCOUNT INTERNAL CONTROLS

1. Meet with the appropriate personnel to obtain an understanding of the control environment.
2. Document the existing control procedures in narratives and/or flowcharts.
3. Test procedures for compliance where applicable, noting all exceptions.
4. Investigate discrepancies and summarize results.
5. Make recommendations where appropriate.

OBJECTIVE 2 – IRS FORM 1099 PROCESSING

1. Meet with the appropriate personnel to obtain an understanding of the department's process.
2. Document the existing control procedures in narratives and/or flowcharts.
3. Ensure the 1099 process is performed in accordance with IRS regulations.
4. Investigate discrepancies and summarize results.
5. Make recommendations where appropriate.

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OBJECTIVE 3 – Vendor PEDACKN Forms

1. Meet with the appropriate personnel to obtain an understanding of the department's process.
2. Ensure the process regarding vendors that are independent contractors is performed in accordance with OPERS guidelines and ORC §145.38 (B) (6).
3. Investigate discrepancies and summarize results.
4. Make recommendations where appropriate.

DETAILED COMMENTS

I. Segregated Account Internal Control Testing:

Policies and procedures and applicable legislation were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the laws and regulations, deposit and expenditure processes, and internal controls in place for the following segregated accounts:

- Law Enforcement Trust Fund
- Education Account
- Federal Law Enforcement Trust Fund
- Furtherance of Justice
- CSEA Deposits Held and Due to Others

All deposits and expenditures were selected from the Federal Law Enforcement Trust Fund account and samples of deposits and expenditures were selected from the remaining accounts. Detail testing was performed to ensure adequate support was maintained, activity was in compliance with rules and regulations, and proper approval was obtained/documented. In addition, bank reconciliations were selected for detail testing to ensure a bank reconciliation was performed each month and a supervisor review was performed and documented.

The following general recommendation was noted:

Education and Furtherance of Justice (FOJ) Accounts:

General Recommendation:

Upon detail testing, IAD noted one (1) out of one (1) instance where an expenditure between \$5,000 and \$50,000 was not approved by Board of Control, however, upon discussion with Prosecutor personnel, IAD noted that segregated account expenditure are not required to be approved by Board of Control. IAD recommends that all expenditures between \$5,000 and \$50,000 be approved by Board of Control to ensure proper approval and transparency of Prosecutor's expenditures.

The following issues were noted:

CSEA Deposits Held & Due to Others Account:

1. Issue:

Upon detail testing, IAD noted twelve (12) of twelve (12) bank reconciliations were not properly approved.

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Recommendation:

IAD recommends that bank reconciliations be approved each month by the appropriate personnel. This will help to ensure reconciliations are properly performed, transactions are reviewed for reasonableness and accuracy.

Management Action Plan:

The CSEA policy addressing reconciliation does not currently require approval by another staff member. Upon recommendation by IAD, CSEA will immediately begin to require approval of the reconciliation by the fiscal supervisor or his/her designee and update our policy to require same no later than 10/31/2017.

Law Enforcement Trust Fund and Education Account:

2. Issue:

Upon detail testing of LETF and Education Account deposits, IAD noted four (4) of ten (10) and two (2) of five (5) instances, respectively, where checks were not deposited timely in accordance with ORC §9.38. Additionally, IAD noted that the Prosecutor's deposit policy states that funds are to be deposited within forty-eight (48) hours of receipt, which does not coincide with ORC 9.38.

Recommendation:

IAD recommends that all funds received be deposited by the next business day or reference County Codified Ordinance §195.03 which allows up to three (3) days for deposits less than \$1,000 as long as a policy has been created for safeguarding funds until such time as they are deposited. This will help to ensure compliance with ORC §9.38.

Management Action Plan:

The Prosecutor's Office policy will be updated to require the finance director or his/her designee to make all deposits greater than \$1,000 within one business day of receipt to ensure compliance with ORC 9.38 and within up to three (3) days for deposits less than \$1,000, referencing County Codified Ordinance 195.03, no later than 10/31/2017. We will begin this practice immediately.

II. IRS Form 1099 Process:

Staff interviews were conducted to gain an understanding of the IRS Form 1099 (1099) process. The 1099 process was reviewed to ensure procedures are performed in accordance with IRS regulations.

Additionally, 2016 expenditures were obtained to ensure all independent contractors, exceeding \$600 in the calendar year, received a Form 1099. Lastly, All 1099s issued for calendar year 2016 were reviewed to ensure they were sent by the applicable IRS deadline.

The following issue was noted:

3. Issue:

Upon detail testing, IAD noted the Prosecutor sends a Form 1099 to all applicable vendors for payments exceeding six hundred dollars (\$600) cumulatively; however, the policy does not take into account that the IRS views all departments within Summit County as one tax ID. This could cause a vendor being paid by two

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separate county departments not to receive a Form 1099 when cumulative payments may exceed the six hundred dollar (\$600) threshold.

Recommendation:

IAD recommends the Prosecutor's Office follow the Summit County Fiscal Office's policy by issuing a Form 1099 to every vendor receiving a payment over \$0.01. This will help to ensure compliance with IRS Form 1099 guidelines.

Management Action Plan:

The Prosecutor's office was advised of a recent change to the IRS Form 1099 process during the Segregated Accounts Audit and an update to the Summit County Fiscal Office's policy regarding same. We will review this policy and update our policy to require a FORM 1099 be issued to every independent contractor receiving payment over \$.01 for services rendered to our office as IAD and the Fiscal Office have been advised (and advised us of the same) that the IRS views all departments within Summit County as one tax ID, thereby requiring a 1099 to be issued to every paid vendor to eliminate the chance that total county payments may exceed the \$600 threshold.

III. Vendor PEDACKN Forms

2016 and 2017 expenditures were obtained and detail testing was performed to ensure the following:

- The Independent Contractor has completed and signed a PEDACKN (Independent Contractor Acknowledgment) form in compliance with OPERS guidelines.
- The Independent Contractors status is terminated with the County if the Independent Contract is currently receiving an Ohio Public Employee Retirement System (OPERS) benefits in compliance with ORC §145.38 (B)(6).

The following issue was noted:

4. Issue:

Upon detail testing, IAD noted no formal policies and procedures over the Independent Contractor/Worker Acknowledgement Form process (PEDACKN Form). In addition, upon detail testing, IAD noted a Vendor PEDACKN Form was not completed for six (6) of eight (8) independent contractors, in accordance with the Ohio Public Employment Retirement System (OPERS).

Recommendation:

IAD recommends that the Prosecutor's Office create formal policies and procedures over the Vendor PEDACKN Form process and obtain a Vendor PEDACKN Form for each independent contractor. This will help to ensure that proper procedures are in place and consistently followed within the department and are in accordance with all applicable OPERS laws.

Management Action Plan:

As the issues with the PEDACKN form requirements were brought to our attention by the Fiscal Office and IAD in June 2017, the Prosecutor's Office would not have completed these forms for vendors paid prior to this time. We will create a formal policy regarding the vendor PEDACKN form process and obtain a Vendor PEDACKN form for each independent contractor. The policy will be created by 10/31/2017.